

BEFORE THE POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

---

Institutional Cost Contribution	)
Requirement for Competitive Products	)
Docket No. RM2017-1	)

---

**Comments of Stamps.com**  
(January 23, 2017)

Stamps.com Inc. ("Stamps.com") submits these comments pursuant to Commission Order No. 3624, "Advance Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products" (Nov. 22, 2016). We thank the Commission for this opportunity.

Stamps.com is the leading provider of postage online and shipping software solutions to approximately 650 thousand customers. Our services, including Stamps.com, Endicia, ShipStation, ShipWorks, and ShippingEasy, are used by a range of businesses, mostly small and medium-size ones, to send parcels via the Postal Service. These businesses also send parcels via other shippers. These comments support our position that the minimum level of subject contribution should be eliminated, or retained at the current level.

**The Parcel Market is Workably Competitive**

Stamps.com has customers of all sizes, many of whom send parcels. Most are small businesses. Many are eCommerce shippers. Some of them (sometimes start-

ups) operate out of their homes, and some out of larger facilities. They compete with other businesses, sometimes much larger ones, both domestic and foreign.

We understand the ways these firms select carriers. They look at reliability, service times, whether weekend delivery is offered, convenience, regulations, tracking systems, pick-up times and arrangements, damage, return options, the array of services offered, ancillary services such as insurance and forwarding, and price. Sometimes the parcel recipient has preferences. Some senders prefer to deal with one shipper. Most senders divide their parcels among shippers based on an analysis of all these things. They are sophisticated.

These firms look at price, but they do not know anything about the costs or the contributions of the carriers. Also, they look at much more than price. It is common for a higher-price carrier to be selected, based on considerations that the firm struggles with daily, and it is common for firms to shift from one carrier to another. Many of our customers use sophisticated multi-carrier software platforms to help determine their choice of carrier on a package by package basis.

Our eCommerce customers win and lose orders based on how much they must pay for shipping. If their shipping prices are increased, they may lose orders to eCommerce sellers based in China who benefit from shipping prices subsidized under the Universal Postal Union's terminal dues scheme. See *also* comments in Docket No. IM2016-1. This is especially relevant for the smallest and lightest packages.

We conclude that competition is occurring, in fact strong competition is occurring, but it is a complex thing. A carrier might see sensitivity to its price, thought of

academically as being price elastic or as having a high elasticity, even though its price is a step or two higher or lower than the price of a competitor.

### **The Postal Service is Behaving Suitably in the Parcel Market**

It is obvious that Stamps.com's focus on PC Postage is aligned with an interest in higher volume for the Postal Service. On the other hand, we understand that the purpose of placing products in the competitive stable is to give the Postal Service pricing freedom, in hopes that it will be able to compete more effectively and come out ahead financially. Indeed if the Postal Service could make enough net income on its competitive products, its overall finances could be improved.

In economics, coming out ahead translates into the notion of profit maximization. In theory, this requires that the marginal costs and the elasticities of the products be known, including the cross-elasticities, and that the price be set according to a maximization formula. In practice, this requires that the marginal costs be known and that the firm have a marketing-type feel for the sensitivity of its demand to its prices, given all the other factors that customers consider, some of which are discussed above. In other words, a balancing act is required, under conditions of uncertainty.

It is our observation that the Postal Service is thinking about, and is performing, the balancing act just described, an act that includes adjustments in product definitions and recognition of relations among its products. Related is that the Postal Service has a large and growing number of negotiated service agreements for its competitive products (NSAs).<sup>1</sup> Through the judicious use of reseller NSAs, the Postal Service

---

<sup>1</sup> In its Annual Compliance Determination for FY 2015, the Commission refers to 200 NSAs (at 80). In FY 2016, there were 301 Competitive Product filings, most of which involved NSAs, adding significantly to the number in 2015.

provides discounts to the optimal smaller shippers in the eCommerce segment who use sophisticated software shipping tools. The Commission has found the competitive NSA process “has proven beneficial to both the Postal Service and the mailing community.” Section 701 Report (November 14, 2016) at 17. When profits are pursued, the contribution to institutional costs is an outcome of the pricing decisions made, not a requirement or a constraint. That this is happening is clear: The required contribution is 5.5 percent and the resulting contribution in FY 2016 was 16.5 percent,<sup>2</sup> thus substantially above the requirement.

Whether or not the Postal Service is achieving a maximum profit position cannot be assessed by looking at how close its prices are to those of its competitors or by comparing its contributions to the overhead proportions of a competitor. This is because the cost analyses done by the parties in any comparison are likely to be different and the situations of the parties are different.

The matter of competitors being in different situations, and still struggling to compete, is important. In initial comments in Docket No. RM2016-2, ACMA said: “UPS does not want to give up any strengths of its own: a better labor contract; a processing and distribution network tailored specifically to the handling of parcels; freedom to enter into contracts with customers, selectively, without regulatory oversight; freedom to craft the levels and universality of its service, and freedom to do such things as offer loss-leaders” (at 36). And in reply comments in the same docket, the Postal Service noted that it “faces many unique disadvantages” and referred to a Federal Trade Commission “finding that the Postal Service’s overwhelming net competitive disadvantage causes

---

<sup>2</sup> See Preface at 4, USPS Library Reference 39, Docket No. ACR2016.

competitive product prices to be artificially high,” not artificially low (at 5). In short, the playing field is not level and cannot be leveled.

### **The Minimum Contribution Should Be Left Alone or Eliminated**

What role, then, does the minimum contribution play? If it is set too high, the Postal Service, without flexibility, is squeezed into unprofitable territory and mail users, including our customers, find themselves losing business, paying unduly high rates, or both. If the minimum contribution is set lower, the Postal Service simply sets the rates higher, as now, and the constraint is not active. Even with a developed record, the Commission is not in a position to select a maximum-profit level—this must be left to the Postal Service. In our business, we have seen tremendous growth in eCommerce shipping volume with the Postal Service, and we believe forcing the Postal Service to artificially raise its prices would be harmful. In this situation, the minimum contribution should be left alone or eliminated. It has no role to play.

Respectfully submitted,

s/Seth Weisberg  
Chief Legal Officer  
Stamps.com  
1990 E. Grand Avenue  
El Segundo, CA 90245-5013  
Voice: (301) 482-5808  
Fax: (301) 482-5818  
sweisberg@stamps.com